### Michigan Department of Treasury 496 (02/06) Auditing Procedures Report

				ed and P.A. 71 of 1919,	as amended				County	
l			vernment Type	[Tren===	[] <u></u>	Local Unit Na City of Pa			County Kalamazoo	
ᆫ	Ount	•	⊠City	vp	Other	Oity Oi Pa	Date Audit Report Subr	nitted to State	Natarrazoo	
	0/07			9/14/07			10/10/2007	miled to State		
We a	ffirm	that	 :						<del></del>	
We a	re ce	ertifie	d public account	ants licensed to pr	actice in M	/lichìgan.				
				material, "no" resp comments and reco			osed in the financial sta	tements, inclu	iding the notes, or in the	
	YES	2	Check each ap	plicable box belo	w. (See in	structions fo	r further detail.)			
1.	1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.									
2.	2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.									
3.	$\boxtimes$		The local unit is	in compliance wit	h the Unifo	orm Chart of	Accounts issued by the	Department of	of Treasury.	
4.	$\times$		The local unit ha	as adopted a budg	et for all re	equired funds	<b>S</b> .			
5.	×		A public hearing	on the budget wa	as held in a	accordance v	vith State statute.			
6.	×		The local unit ha	•	Municipal	Finance Act	, an order issued under	the Emergen	cy Municipal Loan Act, or	
7.	×		The local unit ha	as not been deling	uent in dis	tributing tax	revenues that were coll	ected for ano	ther taxing unit.	
8.	×		The local unit or	nly holds deposits	/investmer	nts that comp	ly with statutory require	ments.		
9.	$\boxtimes$						s that came to our atten sed (see Appendix H of		d in the <i>Bulletin for</i>	
10.	×		that have not be	een previously con	nmunicate	d to the Loca		rision (LAFD).	luring the course of our audit If there is such activity that has	
11.		×	The local unit is	free of repeated of	comments	from previou	s years.			
12.	X		The audit opinion	on is UNQUALIFIE	D.					
13.	×			as complied with C inting principles (G		or GASB 34 a	s modified by MCGAA	Statement #7	and other generally	
14.	X		The board or co	ouncil approves all	invoices p	prior to payme	ent as required by char	ter or statute.		
15.	×		To our knowled	ge, bank reconcilia	ations that	were review	ed were performed time	aly.		
incl des	uded cripti	in t on(s	his or any other ) of the authority	audit report, nor and/or commission	do they o n.	btain a stan	d-alone audit, please e		the audited entity and is not ame(s), address(es), and a	
<u> </u>			closed the follow	this statement is	Enclosed		red (enter a brief justification	nn)		
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Fina	ancia	al Sta	tements			<u> </u>	_			
The	e lette	er of	Comments and F	Recommendations						
Oth	er (D	escrib	e)							
1			Accountant (Firm Nam	ne)			Telephone Number			
	Seber Tans, PLC (269) 343-8180								7%	
								49008		
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				vara, CP.	<u> </u>	Matthew Ho	ward	11010	013253	

## CITY OF PARCHMENT, MICHIGAN FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2007

#### TABLE OF CONTENTS

	Page No.
Independent Auditors' Report	1
Management's Discussion and Analysis	2-8
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Governmental Funds	
Balance Sheet - Governmental Funds	11
Reconciliation of the Balance Sheet to the Statement of Net Assets –	
Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund	
Balances to the Statement of Activities - Governmental Funds	14
Proprietary Funds	
Statement of Net Assets - Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	16-17
Statement of Cash Flows – Proprietary Funds	18-19
Fiduciary Funds	
Statements of Fiduciary Assets and Liabilities	20
Notes to Financial Statements	21-36
Required Supplementary Information	
Budget Comparison Schedule - General Fund	37
Budget Comparison Schedule - Major Street Fund	38
Budget Comparison Schedule – Local Street Fund	39



#### INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Commission City of Parchment, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2007, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2-8 and 37-39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Seber Tans, PLC Kalamazoo, Michigan

September 14, 2007

This section of the City of Parchment's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

#### Fourth Year - Governmental Accounting Standards Board Statement No. 34

The City of Parchment is reporting the new Governmental Accounting Standards Board Statement No. 34 reporting requirement for the fourth time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

#### Financial Highlights

The City's Total Net Assets are \$6,023,752.

During the year, the City's expenses were \$38,635 less than the \$1,407,722 generated in taxes, other revenues and other financing sources for governmental programs.

The City's General Fund fund balance at year end was \$870,162, which represents 6 months of budgeted expenditures in the 2007-08 fiscal year.

#### Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the activities that the government operates like businesses, such as the water and sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required

supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non major governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

#### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state grants finance most of these activities.
- Business-type activities The City charges fees to customers to help it cover the
  costs of certain services it provides. The City's water and sewer systems are
  included here.
- Component units The City includes one other entity in its report the Downtown Development Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and by bond covenants.

#### The City has two kinds of funds:

- Governmental funds Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- Proprietary funds Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's Internal Services Fund.

#### Financial Analysis of the City as a Whole

#### Changes in Net assets

The City's combined net assets are \$6,023,752. In comparison, last year net assets were \$5,985,117, an increase of \$38,635. Governmental activities have total net assets of \$4,102,752.

		vernmental Activities 2007	usiness-type Activities 2007	Total 2007		
Current and long term assets	\$	4,278,620	\$ 1,945,450	\$ 6,224,070		
Current and long term liabilities		175,868	 24,450	200,318		
Total net assets	\$	4,102,752	\$ 1,921,000	\$ 6,023,752		

#### **Governmental Activities**

The City's Administration took several actions this year to reduce expenses. Grass mowing was contracted out this year, and there was no summer part-time help. The City did not replace the computer system file server, the telephone service or the carpeting in City Hall. The parking lot at City Hall needs replacement, but that expense was also put on hold. The City does not have many options to increase revenue. The City's total governmental fund revenues excluding other

financing sources were \$1,407,722 this year. Property taxes were \$761,099, or 54% of the total revenues. Property tax increases are controlled by various State laws that favor newer, undeveloped cities while severely restricting developed cities (like Parchment) to amounts at or below the rate of inflation. State revenue sharing made up \$320,309 or 23% of the total revenue, down 4% from last year. The distribution of this revenue is controlled by State laws. The City did receive \$38,216 in grants and contributions for summer arts programs on the Stage at Kindleberger. The remaining governmental fund revenues are comprised mostly of Charges for Services and Interest revenue.

#### **Business-Type Activities**

Operating revenues of the City's business-type activities decreased from the prior year of \$521,577 to the current year total of \$475,792. Operating expenses increased \$41,500 to \$539,033. The sewer fund had a \$36,173 increase in net assets while the water fund had a decrease in net assets of \$54,576.

	vernmental Activities	siness-type Activities	Total
Revenue			 
Program revenue			
Charges for services	\$ 91,594	\$ 475,792	\$ 567,386
General revenue:			-
Property taxes	761,099		761,099
Operating grants and contributions	38,216		38,216
Capital grants and contributions		22,624	22,624
State-shared revenue	320,309		320,309
Investment income	80,831	21,601	102,432
Special assessment interest income		613	613
Other revenue	112,840		112,840
Total revenue	1,404,889	520,630	1,925,519
Program expenses			
General government	333,148		333,148
Public safety	455,984		455,984
Public works	331,682		331,682
Recreation and culture	128,957		128,957
Interest on long term debt	3,409		3,409
Water and sewer		539,033	539,033
Depreciation	94,671		94,671
Total program expenses	 1,347,851	539,033	1,886,884
Change in net assets	\$ 57,038	\$ (18,403)	\$ 38,635

#### Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,231,014, an increase of \$88,724.

#### The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City of Parchment as a whole. The City Commission created funds to help manage money for specific purposes as well as show accountability for certain activities, such as the State of Michigan Act 51, Major and Local Street funds. The City of Parchment governmental major funds include the General Fund and the Major and Local Street Funds.

#### General Fund

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, from fees charged for various municipal activities and services are recorded in the General Fund. This fund had a fund balance increase of \$57,933 over 2006.

#### Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these for improvements to the city street system, along with contributions from General Fund. Major Streets had an increase in fund balance of \$40,571 and Local Streets had a decrease of \$9,780.

#### General Fund Budgetary Highlights

The budget for 2006-2007 was passed on June 19, 2006. Over the course of the year the City of Parchment amended the budget to take into account unanticipated events during the year. There was one budget amendment during fiscal year 2006-2007. The parks, recreation & culture budget was increased by \$3,000 to account for private donation related expenditures for the Stage at Kindleberger. These expenditures were offset by contributions.

#### Capital Assets

At the end of 2007, the City had invested \$4,162,608 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years. This year's major capital improvements included the following:

•	Repaving of Roadway\$	41,891
•	Investment in Water Plant improvementsS	50,312
•	Investment in Sewer Main\$	36.751

#### Long-term Debt

At year-end the City had \$720,000 in bonds and notes outstanding for the Downtown Development Authority and \$66,939 in a note for the Fire Truck.

#### Limitations on Debt

The State limits the amount of general obligation debt the City can issue to 7% of the assessed value of all taxable property within the City's corporate limits. The City's legal debt limit is \$3,852,306. The City has an available unused portion of \$3,065,367.

#### **Bond Ratings**

Standard and Poor's Investors Service, has given the City of Parchment a BBB bond rating, recognizing the affect of the Crown Paper Company bankruptcy and closing.

#### Economic Factors and Next Year's Budgets and Rates

The inflation rate for use in the 2007 capped value formula, and the 2007 "Headlee" millage reduction fraction formula was 3.7%. The capped value and the Headlee millage reduction are key elements in determining property tax revenues.

The City has again produced a timely budget for fiscal year 2007. Total appropriations in the General fund 2007 budget are \$1,402,093, an increase of \$4,120 over the final 2006 budget of \$1,397,973.

#### **Future Development**

The City of Parchment has entered into a Pre-Development agreement with Lundine and Associates who will purchase and develop the former Crown Vantage property currently owned by the City. The property is a Brownfield site and is approximately 85 acres in size and includes approximately 18 buildings and a wastewater treatment plant. There are some recognized and anticipated environmental issues on the property. The Michigan Department of Environmental Quality (MDEQ) has conducted recent testing on the site. The City is familiar with the test results and the developer is prepared to address site remediation issues. At this time the City is preparing to purchase the unused Norfolk Southern railroad property. The property will then be sold to the developer along with the vacant mill property.

At this time the redevelopment plan anticipates 658 residential units, 74,000 square feet of retail space and a variety of recreational facilities. The construction activity will include paved streets with curb and gutter, sidewalks, municipal water and sewer and other underground utilities. The Development management will be responsible to manage the construction activity with oversight by city staff and contracted building officials.

#### Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Parchment, 650 S Riverview Drive, Parchment, MI 49004.

#### CITY OF PARCHMENT, MICHIGAN GOVERNMENT-WIDE FINANCIAL STATEMENTS STATEMENT OF NET ASSETS (DEFICIT) June 30, 2007

	P			
	Govern- mental Activities	rimary Governn Business- Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 134,468	\$ 25,673	\$ 160,141	\$ 12,082
Investments	1,284,696	295,162	1,579,858	129,487
Receivables	123,533	133,394	256,927	876
Inventory	1,713	15,659	17,372	
Prepaid expenses	13,039	2,064	15,103	
Due from State	20,749		20,749	
Noncurrent assets				
Receivable in one year		882	882	
Receivable in more than one year		10,430	10,430	
Capital assets - net	2,700,422	1,462,186	4,162,608	4,122
TOTAL ASSETS	\$ 4,278,620	\$ 1,945,450	\$ 6,224,070	\$ 146,567
LIABILITIES AND NET ASSETS (DEFICIT)				
LIABILITIES				
Accounts payable	\$ 14,416	\$ 22,847	\$ 37,263	\$
Accrued and other liabilities	10,906	1,603	12,509	10,018
Due to others	789		789	
Noncurrent liabilities				
Due within one year	36,286		36,286	160,000
Due in more than one year	113,471		113,471	560,000
TOTAL LIABILITIES	175,868	24,450	200,318	730,018
NET ASSETS				
Invested in capital assets, net of				
related debt	2,629,984	1,462,186	4,092,170	4,122
Restricted for streets	360,852		360,852	
Restricted for Arts Alliance	9,431		9,431	
Restricted for Kindleberger Festival	23,401		23,401	
Unrestricted	1,079,084	458,814	1,537,898	(587,573)
TOTAL NET ASSETS (DEFICIT)	4,102,752	1,921,000	6,023,752	(583,451)
TOTAL LIABILITIES AND NET				
ASSETS (DEFICIT)	\$ 4,278,620	\$ 1,945,450	\$ 6,224,070	\$ 146,567

#### CITY OF PARCHMENT, MICHIGAN GOVERNMENT-WIDE FINANCIAL STATEMENTS STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

			Program Revenue					Net (Expense) Revenue and Changes in Net Assets						
Functions/Programs	Expenses		Charges for Services		Operating Grants and Contributions		Capital Grants and Contributions		Governmental Activities		ess-Type tivities	Totals	Component Units	
Primary government									_					
Governmental activities	_	******		<b>3</b> 0.404				_	(0.4.) (4.4.)	_		/A.F.I. / F	_	
General government	\$	333,148	\$	78,491				\$	(254,657)	\$		(254,657)	\$	
Public safety		455,984		1,897					(454,087)			(454,087)		
Public works		331,682				30.316			(331,682)			(331,682)		
Recreation and culture		128,957		11,206		38,216			(79,535)			(79,535)		***
Interest on long term debt		3,409							(3,409)			(3,409)		
Depreciation (unallocated)		94,671							(94,671)			(94,671)		
TOTAL GOVERNMENTAL		. 245 061				20.216			(1.010.041)			(1.010.041)		
ACTIVITIES		1,347 <u>,851</u>		91,594		38,216		_	(1,218,041)			(1,218,041)		<del></del>
Business-type activities														
Sewer		229,682		233,680			22,624				26,622	26,622		
Water		309,351		242,112							(67,239)	(67,239)		
TOTAL BUSINESS-TYPE ACTIVITIES		539,033		475,792			22,624	_			(40,617)	(40,617)		
TOTAL PRIMARY GOVERNMENT	\$	1,886,884	\$	567,386		38,216	\$ 22,624		(1,218,041)		(40,617)	(1,258,658)		
Component Unit Downtown Development Authority		(47,502)	\$		\$	38,216	\$					~~-		(47,502)
GENERA														
	ty taxes								761,099			761,099		210,277
	hared re								320,309			320,309		
	ment inc								80,831		21,601	102,432		6,976
	es and p								18,322			18,322		
	and forf								14,189			14,189		
		ment interest	incon	ie							613	613		
	llancous							_	80,329			80,329		
TOTA	L GEN	ERAL REVE	NUE	S					1,275,079		22,214	1,297,293		217,253
INCREA	SE IN 1	NET ASSETS	6						57,038		(18,403)	38,635		169,751
Net asset	s (defic	it) at beginni	ng of y	year					4,045,714		1,939,403	5,985,117		(753,202)
NET AS	SETS (	DEFICIT) A	T EN	D OF YEAR				\$	4,102,752	\$	1,921,000	\$ 6,023,752	_\$	(583,451)

See Notes to Financial Statements

#### CITY OF PARCHMENT, MICHIGAN BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2007

		General		Major Street		Local Street		Total Govern- mental	
ASSETS		0.1.6=4		<b>-</b>		2.022	•		
Cash and cash equivalents	\$	84,632	\$	24,163	\$	3,020	\$.	111,815	
Investments		711,361		275,008		37,620	1	,023,989	
Receivables		4.505						4.505	
Trade		4,585						4,585	
Taxes		27,487						27,487	
Trash and recycling		20,422						20,422	
State shared revenue		26,654		1.074		250		26,654	
Interest		5,496		1,874		<b>2</b> 50		7,620	
Prepaid expenses		13,039		14 021		5.039		13,039	
Due from state			_	14,821		5,928		20,749	
TOTAL ASSETS		8 <u>93,676</u>	\$	315,866		46,818	3 1	,256,360	
LIABILITIES AND FUND BALANCI	75								
LIABILITIES		12.040		<0 <b>.7</b>					
Accounts payable	\$	13,043	\$	607	\$	133	\$	13,783	
Accounts payable Accrued wages	\$	8,994	\$	607 2	\$	1,090	\$	10,086	
Accounts payable Accrued wages Accrued payroll taxes	\$	8,994 688	\$	2	\$		\$	10,086 688	
Accounts payable Accrued wages Accrued payroll taxes Due to others	\$	8,994 688 789	\$	2 	\$	1,090	\$	10,086 688 789	
Accounts payable Accrued wages Accrued payroll taxes	\$	8,994 688	\$	2	\$	1,090	\$	10,086 688	
Accounts payable Accrued wages Accrued payroll taxes Due to others	\$	8,994 688 789	\$	2 	\$	1,090	\$	10,086 688 789	
Accounts payable Accrued wages Accrued payroll taxes Due to others TOTAL LIABILITIES	\$	8,994 688 789	\$	2 	\$	1,090	\$	10,086 688 789	
Accounts payable Accrued wages Accrued payroll taxes Due to others TOTAL LIABILITIES  FUND BALANCES	\$	8,994 688 789 23,514	\$	2 	\$	1,090	\$	10,086 688 789 25,346	
Accounts payable Accrued wages Accrued payroll taxes Due to others TOTAL LIABILITIES  FUND BALANCES Reserved for disaster	\$	8,994 688 789 23,514 500 173,306	\$	2 	\$	1,090	\$	10,086 688 789 25,346 500 173,306 360,852	
Accounts payable Accrued wages Accrued payroll taxes Due to others TOTAL LIABILITIES  FUND BALANCES Reserved for disaster Reserved for sight development Reserved for streets Unreserved	\$	8,994 688 789 23,514 500 173,306  696,356	\$	609	\$	1,090	\$	10,086 688 789 25,346 500 173,306	
Accounts payable Accrued wages Accrued payroll taxes Due to others TOTAL LIABILITIES  FUND BALANCES Reserved for disaster Reserved for sight development Reserved for streets	\$	8,994 688 789 23,514 500 173,306	\$ 	609	\$	1,090		10,086 688 789 25,346 500 173,306 360,852 696,356	
Accounts payable Accrued wages Accrued payroll taxes Due to others TOTAL LIABILITIES  FUND BALANCES Reserved for disaster Reserved for sight development Reserved for streets Unreserved	\$ 	8,994 688 789 23,514 500 173,306  696,356	\$ 	609  315,257	\$	1,090  1,223  45,595		10,086 688 789 25,346 500 173,306 360,852	

# CITY OF PARCHMENT, MICHIGAN RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS – GOVERNMENTAL FUNDS June 30, 2007

Total governmental fund balances	\$	1,231,014
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:		
The cost of the capital assets is 3,598,574		
Accumulated depreciation is (993,678)		2,604,896
Other assets are not available to pay for current year expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:  State shared revenue		35,016
Long term liabilities that are not due and payable in the current period and are not reported in the funds:		
Compensated absences payable 79,319		
Lease payable 3,499		
Note payable 66,939		(149,757)
Internal service funds are used by management to charge the cost of equipment to individual funds:  Certain assets and liabilities of internal service funds are included in governmental		
activities in the statement of net assets		381,583
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$</u>	4,102,752

### CITY OF PARCHMENT, MICHIGAN STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

DEMENTING	(	General	_	Major Street		Local Street		Total Govern- mental
REVENUES	ď	7/1 000	ø		ď		ď	261.000
Taxes	\$	761,099	\$		\$		\$	761,099
Licenses and permits		18,322						18,322
Contributions		19,216		00.066		26 101		19,216
State grants		196,775		90,266		36,101		323,142
Private grants		19,000						19,000
Charges for service		91,594						91,594
Fines and forfeitures		14,189		15 201		0.100		14,189
Investment income		63,308		15,391		2,132		80,831
Other revenue		80,329						80,329
TOTAL REVENUES		1,263,832		105,657		38,233		1,407,722
EXPENDITURES Current								
General government		328,912						328,912
Public safety		441,224						441,224
Public works		256,431		38,586		74,513		369,530
Recreation and culture		126,949						126,949
Capital outlay		13,816						13,816
Debt service		38,567						38,567
TOTAL EXPENDITURES		1,205,899		38,586		74,513		1,318,998
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		57,933		67,071		(36,280)		88,724
OTHER FINANCING SOURCES (USES)								
Transfers in						26,500		26,500
Transfers out				(26,500)				(26,500)
TOTAL OTHER FINANCING						26.600		
SOURCES (USES)				(26,500)		26,500	-	
NET CHANGES IN FUND BALANCES		57,933		40,571		(9,780)		88,724
Fund balances at beginning of year		812,229		274,686		55,375		1,142,290
FUND BALANCES AT END OF YEAR	\$	<u>870,</u> 162	\$	315,257	<u>\$</u>	45,595	\$	1,231,014

### CITY OF PARCHMENT, MICHIGAN RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF

#### **ACTIVITIES – GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2007

Net change in fund balance – total governmental funds		\$ 88,724
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	(04.671)	
Depreciation expense Capital outlay	(94,671) 41,891	(52,780)
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable):		
Lease payable Note payable	3,499 31,659	35,158
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:  Compensated absences	·	(5,180)
Assets are not available to pay for current period expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:		
Change in state shared revenue receivable		(2,833)
Internal service funds are used by management to charge the cost of equipment individual funds. Certain net revenue (expense) of internal service funds		
included in governmental activities in the statement of activities;		 (6,051)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		 5 <u>7,038</u>

### CITY OF PARCHMENT, MICHIGAN STATEMENT OF NET ASSETS – PROPRIETARY FUNDS June 30, 2007

	Business-Ty	pe A	ctivities – En	terpr	ise Funds			
	Sewer		Water		Total	Internal Service Funds		
\$	10,571	\$	15,102	\$	25,673	\$	22,653	
	-		-		· ·		260,707	
	<del>_</del>		-		15,659		1,713	
	65,527		65,006		130,533			
	·		•					
	882				882			
	1,032		1,032		2,064			
	1,612		1,249		2,861		1,749	
	203,148		269,686		472,834		286,822	
	10.430				10.430			
	10,450				10,430			
	1 152 671				1 153 671			
	1,133,071		1 996 700					
			1,270,700		1,770,700		313,771	
	1 153 671		1 996 700		3 150 371		313,771	
	1,155,071		1,550,700		5,150,571		515,771	
	(403 885)		(1.104.200)		(1.688.185)		(218,245)	
					_		95,526	
	039,780		802,400		1,402,100		93,320	
	670.216		802,400		1.472.616		95,526	
	<u> </u>	_	· ·				· · · · · · · · · · · · · · · · · · ·	
3	8/3,304		1,072,086	-	1,945,450	<del></del>	382,348	
\$	13,457	\$	9,390	\$	22,847	\$	633	
						•	132	
	14,198		10,252		24,450		765	
						_		
	(50.70)		002.400		1.460.106		06.506	
							95,526	
							286,057	
	859,166	-	1,061,834		1,921,000		381,583	
\$	873,364	\$	1,072,086	\$	1,945,450	\$	382,348	
	\$ \$	\$ 10,571 123,524 65,527  882 1,032 1,612 203,148  10,430 1,153,671 1,153,671 (493,885) 659,786  670,216 \$ 873,364  \$ 13,457 741 14,198  659,786 199,380 859,166	\$ 10,571 \$ 123,524	Sewer       Water         \$ 10,571       \$ 15,102         123,524       171,638          15,659         65,527       65,006         882          1,032       1,032         1,612       1,249         203,148       269,686         10,430          1,153,671           1,996,700         (493,885)       (1,194,300)         659,786       802,400         \$ 873,364       \$ 1,072,086         \$ 13,457       \$ 9,390         741       862         14,198       10,252         659,786       802,400         199,380       259,434         859,166       1,061,834	Sewer       Water         \$ 10,571       \$ 15,102       \$ 123,524       171,638         15,659       65,527       65,006         882        1,032       1,032         1,612       1,249       269,686         10,430        1,153,671           1,996,700           1,153,671       1,996,700          (493,885)       (1,194,300)          659,786       802,400          \$ 873,364       \$ 1,072,086       \$         \$ 14,198       10,252          659,786       802,400          14,198       10,252	\$ 10,571 \$ 15,102 \$ 25,673 123,524 171,638 295,162 15,659 15,659 65,527 65,006 130,533 882 882 1,032 1,032 2,064 1,612 1,249 2,861 203,148 269,686 472,834 10,430 10,430 1,153,671 1,153,671 1,996,700 1,996,700 1,153,671 1,996,700 3,150,371 (493,885) (1,194,300) (1,688,185) 659,786 802,400 1,462,186 \$ 873,364 \$ 1,072,086 \$ 1,945,450 \$ 13,457 \$ 9,390 \$ 22,847 741 862 1,603 14,198 10,252 24,450 659,786 802,400 1,462,186 199,380 259,434 458,814 859,166 1,061,834 1,921,000	Sewer         Water         Total           \$ 10,571         \$ 15,102         \$ 25,673         \$ 123,524         171,638         295,162            15,659         1659,684         17,032         2,064         1,2861         10,430         10,430         10,430         10,430         10,430         10,430         10,430         10,430         10,430         10,430         10,996,700         10,996,700         10,996,700         10,996,700         10,996,700         10,996,700         10,430         10,688,185)         10,430	

### CITY OF PARCHMENT, MICHIGAN STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	Business-Ty			
				Internal
	Sewer	Water	Total	Service Funds
OPERATING REVENUES				
Charges for services	\$ 230,576	\$	\$ 230,576	\$
Water sales and installation		233,065	233,065	
Penalties	3,104	3,207	6,311	
Hydrant rental		5,840	5,840	
Equipment rental	***			50,034
TOTAL OPERATING				
REVENUES	233,680	242,112	475,792	50,034
OPERATING EXPENSES				
Salaries and wages	42,008	64,491	106,499	20,321
Social security	2,596	3,990	6,586	1,260
Hospital and life insurance	15,276	24,580	39,856	8,448
Pension	2,494	3,845	6,339	1,200
Worker's compensation	1,190	1,847	3,037	791
Medicare	607	933	1,540	294
Safety supplies		89	89	
Operating supplies	564	1,415	1,979	
Postage	800	844	1,644	
Chemicals		5,107	5,107	
Gasoline and oil		2,803	2,803	7,816
Repair and maintenance -				
supplies	516	10,408	10,924	4,577
Professional/contractual				
services	927	14,415	15,342	
Sewer treatment charges	84,191		84,191	
Uniform rental		76	76	
Membership and dues		1,700	1,700	
Communications	753	2,094	2,847	
Computer services	1,025	1,025	2,050	
Institutes and training		486	486	
Insurance and bonds	3,722	3,722	7,444	8,314
Utilities	843	44,154	44,997	
Repair and maintenance -				
contractors	18,318	29,239	47,557	433
Repairs and maintenance -				
vehicles		738	738	
Rentals	316	1,535	1,851	
Administrative overhead	30,000	30,000	60,000	1,500
Depreciation	23,536	59,815	83,351	18,106
TOTAL OPERATING				
EXPENSES	229,682	309,351	539,033	<u>73,060</u>
OPERATING INCOME (LOSS)	\$ 3,998	\$ (67,239)	\$ (63,241)	\$ (23,026)

# CITY OF PARCHMENT, MICHIGAN STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS (CONTINUED) For the Year Ended June 30, 2007

	Business-Type Activities – Enterprise Funds						Internal	
		Sewer		Water		Total	,	Service Funds
NON-OPERATING REVENUES								
Investment income Miscellaneous	\$	8,938 	\$	12,663	\$	21,601 	\$	14,174 2,801
Special assessment interest income TOTAL NON-OPERATING		613				613		
REVENUES		9,551		12,663		22,214		16,975
CAPITAL CONTRIBUTIONS		22,624				22,624		
CHANGE IN NET ASSETS		36,173		(54,576)		(18,403)		(6,051)
Net assets at beginning of year		822,993		1,116,410		1,939,403		387,634
NET ASSETS AT END OF YEAR	\$	859,166	<u>s</u>	1,061,834	_\$_	1,921,000	<u>\$</u>	381,583

### CITY OF PARCHMENT, MICHIGAN STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS For the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds							
	Sewer			Water		Total		internal vice Fund
CASH FLOWS FROM					-			
OPERATING ACTIVITIES	Œ	220.011	æ	242 002	\$	401 003	ď	50.024
Receipts from customers	\$	239,911 (116,463)	\$	242,982 (154,058)	3	482,893 (270,521)	\$	50,034 (21,073)
Payments to suppliers Payments to employees		(64,345)		(100,081)		(164,426)		(32,955)
Internal activity – (payments)		(04,343)		(100,081)		(104,420)		(32,933)
receipts to other funds		(33,557)		(37,980)		(71,537)		(3,631)
NET CASH PROVIDED BY		(33,331)	_	(57,500)		(,1,50,7		(5,051)
(USED IN) OPERATING								
ACTIVITIES		25,546		(49,137)		(23,591)		(7,625)
				(12,121)		(==,0 > 1)		(,,)
CASH FLOWS FROM CAPITAL								
AND RELATED FINANCING								
ACTIVITIES								
Receipts from special								
assessment		11,312				11,312		
Proceeds from sale of								
equi <del>pm</del> ent								2,609
Purchase of equipment		(60,757)		(26,310)		(87,067)		
Other								192
NET CASH PROVIDED BY								
(USED IN) CAPITAL AND								
RELATED FINANCING		(40,445)		(2( 210)		(05.055)		2.001
ACTIVITIES		(49,445)		(26,310)		(75,755)		2,801
CASH FLOWS FROM								
INVESTING ACTIVITIES								
Sale (purchase) of investments		(3,584)		28,597		25,013		(40,582)
Receipt of interest		6,543		9,299		15,842		10,129
NET CASH PROVIDED BY				7,277		15,612		
(USED IN) INVESTING								
ACTIVITIES		2,959		37,896		40,855		(30,453)
								(= 1,122)
NET DECREASE IN CASH AND								
CASH EQUIVALENTS		(20,940)		(37,551)		(58,491)		(35,277)
•				,		•		` , ,
Cash and cash equivalents at								
beginning of year		<u>31,511</u>		52,653		84,164		<u>5</u> 7,930
		_ <del></del>						
CASH AND CASH								
EQUIVALENTS AT END OF								
YEAR	\$	10,571		15,102	\$	25,673	\$	22,653

### CITY OF PARCHMENT, MICHIGAN STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED) For the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds					T,	nternal	
		Sewer		Water		Total	_	Service Fund
CASH FLOWS FROM								
OPERATING ACTIVITIES			_					
Operating income (loss)	\$	3,998	\$	(67,239)	\$	(63,241)	\$	(23,026)
Adjustments to reconcile								
operating loss to cash								
provided by (used in)								
operating activities								
Depreciation		23,536		59,815		83,351		18,106
Decrease (increase) in:								
Accounts receivable		6,231		870		7,101		
Prepaid expenses		(1,032)		(1,032)		(2,064)		
Inventory				(380)		(380)		730
Increase (decrease) in:								
Accounts payable		(3,772)		(34,331)		(38,103)		(663)
Internal funds payable		(3,241)		(6,445)		(9,686)		(2,131)
Accrued liabilities		(174)		(395)		(569)		(641)
NET CASH PROVIDED								_
BY (USED IN)								
OPERATING								
ACTIVITIES	\$	25,546	\$	(49,137)	_\$_	(23,591)		(7,625)

#### CITY OF PARCHMENT, MICHIGAN STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES June 30, 2007

+ COPTEC	Payroll Fund
ASSETS	
Cash and cash equivalents	<b>\$</b> 2,498
TOTAL ASSETS	\$ 2,498
LIABILITIES	
Due to others	\$ 2,362
Accounts payable	136
TOTAL LIABILITIES	\$ 2,498

#### NOTE A - Summary of Significant Accounting Policies

The accounting policies of the City of Parchment, Michigan (the City) are in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

#### Reporting Entity

The City was incorporated in 1939 and is located in Kalamazoo County, Michigan. The City is governed by a seven member City Commission, elected by the community at large. This legislative body selects, from among its members, the Mayor, and appoints a City Manager to administer the affairs of the City. The City provides the following services to its residents as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The individual component unit discussed below is included in the City's reporting entity because of its financial relationship with the City.

#### <u>Discretely Presented Component Unit</u>

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable.

#### Downtown Development Authority (DDA)

The members of the governing board are appointed by the City Commission. The Authority's budget is subject to approval by the City Commission. The DDA does not issue any other form of financial statements except as contained in the City of Parchment annual financial statements.

### CITY OF PARCHMENT, MICHIGAN NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

#### NOTE A – Summary of Significant Accounting Policies (Continued)

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

#### Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

#### NOTE A - Summary of Significant Accounting Policies (Continued)

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Fund Based Statements

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the City reports the following major proprietary funds:

The Water Fund accounts for the costs of providing water services to City residents.

The Sewer Fund accounts for the cost of collection and treating waste waters.

Additionally, the City reports the following other funds:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### NOTE A - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing water and sewer services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water sales and services, sewage disposal, park and harbor fees and charges. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### Property Tax Revenue

City property taxes are assessed as of December 31 and attached as an enforceable lien on property as of July 1 of the following year and are due without penalty on or before August 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the Parchment school district, the intermediate school district, and Kalamazoo Valley Community College. Real property taxes not collected, but deemed collectable, as of March 1, are turned over to Kalamazoo County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. The City acts as a collection agent for Kalamazoo County and the Parchment Community Library for winter property taxes.

The City collects a 1% property tax administration fee.

The 2006 taxable valuation of the city is \$47,640,647 on which ad valorem taxes levy consisted of 16.677 mills for operating purposes. This resulted in \$791,511 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. This amount is recognized in the General Fund financial statements as tax revenue.

#### Assets, Liabilities, and Net Assets or Equity

#### Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash and investments are maintained in an investment pool. Accounting records for the pool are maintained on a fund basis. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool. Investments are stated at fair value (quoted market price or the best available estimate).

#### NOTE A - Summary of Significant Accounting Policies (Continued)

#### Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Real property taxes are considered delinquent on August 15<sup>th</sup>, at which time penalties and interest are assessed. Real property taxes not collected, but deemed collectable are turned over to Kalamazoo County for collection as of March 1<sup>st</sup> of the following year. Kalamazoo County advances the City 100% for the delinquent taxes as the County maintains a revolving tax fund to finance delinquent real property taxes for local units.

#### Inventories and Prepaid Costs

Inventories consist primarily of supplies in the proprietary funds. Inventories are recognized as an asset in the proprietary fund types. Inventory is valued at the lower of cost (first in, first out) or market.

Inventories in the governmental fund types are insignificant and are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

#### Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

#### NOTE A - Summary of Significant Accounting Policies (Continued)

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Building and building improvements	50 to 60 years
Utility systems	25 to 100 years
Roads	20 years
Other Infrastructure	15 to 25 years
Vehicles	5 to 20 years
Heavy duty equipment	20 to 40 years
Machinery and equipment	5 to 25 years

#### Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in applicable governmental activities, business type activities, or proprietary fund type statement of net assets.

#### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Contributed capital is recorded in proprietary funds for capital grants or contributions from customers or other funds.

#### Comparative Data/Reclassifications

Comparative data is not included in the City's financial statements.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

#### NOTE B - Stewardship, Compliance, and Accountability

#### Fund Deficit

The City has accumulated a net assets deficit in the Downtown Development Authority (DDA) Fund. The deficit is a result of bonds that were issued in 1997. The proceeds of these bonds were used to purchase infrastructure assets. As allowed by GASB 34, the City has chosen to capitalize infrastructure assets prospectively, and to not go back and capitalize infrastructure assets from prior periods.

#### NOTE B - Stewardship, Compliance, and Accountability (Continued)

#### **Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. At the first commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to June 1<sup>st</sup>, the budget is legally adopted by the City Commission.
- 4. The City Manager is authorized to transfer up to \$5,000 from any function of the budget to any other function of the budget within the same fund without further approval.
- 5. At the beginning of each quarter during the fiscal year, and more often if required by the City Commission, the City Manager shall submit to the Commission data showing the relation between the estimated and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the Commission may reduce appropriations, except any amounts required for debt and interest charges, to such degree as may be necessary to keep expenditures within income and designated reserves. If the revenues exceed the amounts estimated in the budget, the Commission may make supplemental appropriations.
- 6. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted or amended by the City Commission.

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The City's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted on the line item level.

#### NOTE B - Stewardship, Compliance, and Accountability (Continued)

#### Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

		Budget	Actual		
Fund	Budget Item	Appropriation	Expenditure	Variance	
General	Recreation and Cultural	\$ 98,395	\$ 126,949	\$ 28,554	

#### **NOTE** C - Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash	\$ 172,223
Investments	1,709,345
Fiduciary Funds:	
Cash	2,498_
Total Cash and Investments	\$ 1,884,066

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$	300
Bank deposits		174,421
Investments	1	1,709,345
Total	\$	,884,066

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

#### NOTE C - Cash and Investments (Continued)

The governing body has designated three banks for deposit of local unit funds. The investment policy adopted by the Commission has authorized all of the investments allowable under Michigan law. City's deposits and investment policy are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Entity's investments by maturity:

			Remaining Mat	urity (in Months)	
Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	60 Months or longer
Certificates of Deposit Federal Agency Securities	\$ 479,000 1,251,000	\$ 130,000 290,000	\$ 299,000 770,000	\$ 111,000	\$ 50,000 80,000
Total	\$ 1,730,000	<u>\$ 420,000</u>	\$ 1,069,000	\$ 111,000	\$ 130,000

#### Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating for each investment type.

Investment	F	air Value	Rating	Rating Organization
Federal Agency Securities	\$	1,231,498	Aaa	Moody's

#### **NOTE** C – Cash and Investments (Continued)

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single user. The investment policy of the City contains that the investments shall be diversified by the specific maturity dates, individual financial institutions or a specific class of securities in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments in any one issuer that represent 5% or more of total city investments are as follows:

Issuer	Investment Type	Reported Amount
West Michigan Community Bank	Certificate of deposit	\$ 100,000
Lasalle Bank	Certificates of deposit	199,000
Mercantile Bank of Michigan	Certificate of deposit	100,000
FHLB	Federal agency security	450,000
FHLMC	Federal agency security	100,000
FNMA	Federal agency security	500,000

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year end, the City had \$17,433 of bank deposits that were uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The City had an uninsured balance of \$98,266 relating to certificate of deposits, and no custodial credit risk relating to securities, because all securities are registered, and are held by brokerage firms in the City's name. As of June 30, 2007, City investments in the following investment types were held by two broker-dealers (counterparties) that were used by the City to buy the securities:

	Carrying	
Investment Type	Value	How Held
Certificate of deposit	\$ 477,847	Counterparty
Federal agency securities	1,231,498	Counterparty

#### Foreign Currency Risk

The City is not authorized to participate in investments that have this type of risk.

#### NOTE D - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	July 1, 2006	Additions	Disposals	June 30, 2007
Capital assets not being depreciated Land	\$ 1,303,688			\$ 1,303,688
Capital assets being depreciated Buildings and				
improvements	663,397			663,397
Machinery and equipment	1,448,282		7,500	1,440,782
Infrastructure	462,587	41,891		504,478
	2,574,266	41,891	7,500	2,608,657
Less accumulated depreciation Buildings and				
improvements	178,372	11,739		190,111
Machinery and equipment	883,941	79,566	7,500	956,007
Infrastructure	44,333	21,472		65,805
	1,106,646	112,777	7,500	1,211,923
Net capital assets being depreciated	1,467,620	(70,886)		1,396,734
•				
Governmental capital assets total - net of accumulated				
depreciation	\$ 2,771,308	(70,886)		2,700,422

#### NOTE D - Capital Assets (Continued)

Capital asset activity of the City's business-type activities was as follows:

	July 1, 2006		Additions	Disposals	j	June 30, 2007		
Capital assets not being					_			
depreciated:					_			
Land	\$	7,000			\$	7,000		
Capital assets being depreciated Buildings and								
improvements	2	69,184	3,450			272,634		
Other improvements		13,647				13,647		
Machinery and equipment Distribution and	1,2	33,708	46,862			1,280,570		
collection systems	1,5	39,768	36,751			1,576,519		
	3,0	39,768 056,307	87,063			3,143,370		
Less accumulated depreciation Buildings and improvements Improvements other than	1	20,942	5,867			126,809		
buildings		3,694	343			4,037		
Machinery and equipment	7	77,952	52,959			830,911		
Distribution and collection	_							
systems		02,245	24,182			726,427		
	1,0	504 <u>,833</u>	83,351	·		1,688,184		
Net capital assets being depreciated	1,4	51,474	3,712		_	1,455,186		
Business-type capital assets total – net of accumulated depreciation	_\$ 1,4	58,474	3,712			1,462,186		
Capital asset activity of the Cit	y's con	nponent	units was as fol	lows:				
	Jul <sub>2</sub>	y 1, 06	<u>Ad</u> ditions	_ Disposals	J	une 30, 2007		
Capital assets being depreciated								
Machinery and equipment	\$	7,977				7,977		
Less accumulated depreciation Machinery and equipment		3,057	798			3,855		
Component unit capital assets total – net of accumulated								
depreciation		4,920	798			4,122		

#### NOTE D - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	\$	112,777
Business-type activities		
Water	\$	59,815
Sewer	_	23,536
Total business-type activities	\$	83,351

#### NOTE E - Long-Term Debt

	Balance at July 1, 2006		Additions		D	eductions	Balance at June 30, 2007		
GOVERNMENTAL									
ACTIVITIES									
Note payable to a bank in									
the amount of \$160,063,									
including interest at									
3.41%	\$	98,598	\$		\$	(31,659)	\$	66,939	
Capital lease payable to a									
finance company in the									
amount of \$17,495,									
including interest at									
26.2%		6,998				(3,499)		3,499	
Compensated absences		74,139		5,180				79,319	
TOTAL GOVERNMENTAL									
ACTIVITIES		179,735		5,180		(35,158)		149,757	
COMPONENT UNIT									
1991 general obligation bonds									
in the amount of \$1,660,000,									
including interest ranging									
from 4.8% to 5.7%		880,000				(160,000)		720,000	
						<u> </u>			
TOTAL INDEBTEDNESS	\$	1,059,735	\$	5,180		(195,158)	\$	869,757	

Annual debt service requirements to maturity for debt obligations are as follows:

	Governmen	tal Activities	Component Unit			
Payments due for years		_	· · ·			
ending June 30:	Principal	Interest	Principal	Interest		
2008	32,787	2,281	160,000	40,070		
2009	34,152	1,157	155,000	31,430		
2010			180,000	22,905		
2011			225,000	107,230		
	\$ 66,939	\$ 6,794	\$ 720,000	\$ 201,635		

#### NOTE E - Long-Term Debt (Continued)

#### Capital Leases

The government has entered into a lease agreement as lessee for financing the purchase of a digital copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payment as of the inception date. The future minimum lease obligations and the net present value are as follows at June 30, 2007:

2008	\$	3,499
Total minimum lease payments	_\$	3,499

#### Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note A for a description of the City's accounting policies related to these items.

#### NOTE F - Employee Retirement and Benefit System

#### Plan Description

The City has a defined benefit pension plan that covers substantially all full time employees. The plan is operated by the State of Michigan Municipal Employees' Retirement System (MERS), which is a cost-sharing-agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at: 447 N. Canal Road, Lansing, Michigan 48917.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires City employees to contribute 4.7% of their annual compensation. The City is required to contribute the remaining amounts necessary to fund MERS, using the actuarial basis specified by statute.

#### NOTE G - Employee Retirement and Benefit System (Continued)

#### **Annual Pension Costs**

For the year ended June 30, 2007, the City's annual pension cost of \$29,563 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal funding cost method. Significant actuarial assumptions used included a rate of return on the investment of present and future assets of 8% per year compounded annually; projected salary increases of 4.5% per year compounded annually, attributable to inflation; additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit.

During the year ended December 31, 2006, the plan experienced a decrease of \$33,272 in the net pension obligation. The combined change in net pension obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

#### Three Year Trend Information- (Unaudited)

Three year trend information as of December 31, 2006 follows:

	2006			2005		2004
Annual pension cost	\$	27,612	\$	28,020	\$	26,616
Percentage of APC contributed		100		100		100
Net pension obligation		131,993		165,265		134,490
Actuarial value of assets		2,177,414	:	2,056,696		1,989,692
Actuarial accrued liability	,	2,309,407	:	2,221,961		2,124,182
Unfunded AAL		131,993		165,265		134,490
Funded ratio		94		93		94
Covered payroll		491,139		456,333		459,732
UAAL as a percentage of						
covered payroll		27		36		29

#### NOTE H - Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Voluntary employee contributions for the year ended June 30, 2007 were \$14,209.

#### NOTE I - Other Post-Employment Benefits

The City provides certain health care benefits for certain retired employees who have ten or more years of continuous City service and do not accept employment elsewhere. Such employees are entitled to paid health insurance for themselves on the basis of one paid year for every five years of continuous employment with the City. There is one former employee receiving benefits under this program. The cost of retiree health care benefits is recognized as premiums are paid, and for the year amounted to approximately \$9,045. The estimated liability for postretirement health care benefits at current costs for the individual presently receiving benefits is approximately \$9,045. Additionally, all employees, upon retirement, may continue membership in the City's health insurance plan by paying, in a timely manner, the amount of the monthly premium due, to the City, who shall pay the premium to the health insurance carrier.

#### NOTE J - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for death and disability, hospitalization and life claims, and is a member of the Michigan Municipal League Liability and Property Pool for claims relating to liability, fire, fleet and bonds. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City participates in the Michigan Municipal Workers' Compensation Fund risk pools for the purpose of its workers' compensation coverage.

The Michigan Municipal League Risk Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### NOTE K - Commitments and Contingencies

The City has a potential contingent liability associated with the City-owned mill property. The City estimates that environmental clean up costs would be approximately \$3.5 million and demolition costs of the mill would be approximately \$3 million. There is currently no specific time table when the demolition and clean up must occur and no amount is recorded as of June 30, 2007.

The City has participated in a federally assisted grant program. The program is subject to financial and compliance audits by the grantor or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The City's Management believes there is compliance with the grant agreement.



## CITY OF PARCHMENT, MICHIGAN BUDGET COMPARISON SCHEDULE – GENERAL FUND For the Year Ended June 30, 2007

	Budgeted Amounts								
	_			Final		Actual	Variance with Final Budget Fav (Unfav)		
REVENUES	•	777 100	•	772 100	~	761.000		(11.001)	
Taxes	\$	772,100	\$	772,100	\$	761,099	\$	(11,001)	
Licenses and permits		18,800		18,800		18,322		(478)	
Contributions						19,216		19,216	
State grants		201,850		201,850		196,775		(5,075)	
Private grants						19,000		19,000	
Charges for services		78,300		78,300		91,594		13,294	
Fines and forfeitures		13,800		13,800		14,189		389	
Investment income		45,000		45,000		63,308		18,308	
Other revenue		65,000		65,000		80,329		15,329	
TOTAL REVENUES		1,194,850		1,194,850		1,263,832		68,982	
EXPENDITURES									
General government		524,069		524,069		328,912		195,157	
Public safety		452,272		452,272		441,224		11,048	
Public works		270,016		270,016		256,431		13,585	
Recreation and cultural		98,395		98,395		126,949		(28,554)	
Capital outlay		12,829		12,829		13,816		(987)	
Debt service		35,100		35,100		38,567		(3,467)	
TOTAL EXPENDITURES		1,392,681		1,392,681		1,205,899		186,782	
EXCESS (DEFICIENCY) OF									
REVENUES OVER									
EXPENDITURES		(197,831)		(197,831)		57,933		255,764	
Fund balance at beginning of year		812,229		812,229		812,229			
FUND BALANCE AT END OF									
YEAR		614,398		614,398		870,162	\$	255,764	

### CITY OF PARCHMENT, MICHIGAN BUDGET COMPARISON SCHEDULE – MAJOR STREET FUND

For the Year Ended June 30, 2007

	Budgeted Amounts									
				Final				Variance with Final Budget Fav (Unfav)		
REVENUES	_		_		_		_			
State grants	\$	106,076	\$	106,076	\$	90,266	\$	(15,810)		
Investment income		8,000		8,000		15,391		7,391		
TOTAL REVENUES		114,076		114,076		105,657		(8,419)		
EXPENDITURES										
Routine maintenance		25,195		27,195		4,270		22,925		
Traffic services		6,116		6,116		10,326		(4,210)		
Winter maintenance		17,572		15,572		19,325		(3,753)		
Administration		9,386		9,386		4,665		4,721		
TOTAL EXPENDITURES		58,269	_	58,269		38,586		19,683		
OTHER FINANCING USES										
Operating transfer out		26,500		26,500		26,500				
TOTAL EXPENDITURES AND		0.1.770		0.1 = 40						
OTHER FINANCING USES		84,769		84,769		65,086		19,683_		
EXCESS OF REVENUES OVER EXPENDITURES AND										
OTHER FINANCING USES		29,307		29,307		40,571		11,264		
Fund balance at beginning of year		274,686		274,686		274,686				
FUND BALANCE AT END OF YEAR	dr.	202.002	ď	202 002	ø	215.255	dt.	11.074		
ILAK		303,993		303,993		315,257		11,264_		

### CITY OF PARCHMENT, MICHIGAN BUDGET COMPARISON SCHEDULE – LOCAL STREET FUND For the Year Ended June 30, 2007

	Budgeted Amounts								
	Original Final					Actual	Variance with Final Budget Fav (Unfav)		
REVENUES									
State grants	\$	38,589	\$	38,589	\$	36,101	\$	(2,488)	
Investment income		1,500		1,500		2,132		632	
TOTAL REVENUES		40,089		40,089		38,233		(1,856)	
OTHER FINANCING SOURCES									
Operating transfer in		26,500		26,500		26,500			
TOTAL REVENUES AND OTHER FINANCING									
SOURCES		66,589		66,589		64,733		(1,856)	
EXPENDITURES									
Routine maintenance		52,458		55,458		49,877		5,581	
Traffic services		3,423		3,423		2,138		1,285	
Winter maintenance		17,275		15,275		19,341		(4,066)	
Administration		2,127		1,127		3,157		(2,030)	
TOTAL EXPENDITURES		75,283		75,283		74,513		770	
DEFICIENCY OF REVENUES									
OVER EXPENDITURES		(8,694)		(8,694)		(9,780)		(1,086)	
Fund balance at beginning of year		55,375		55,375	<del></del>	55,375			
FUND BALANCE AT END OF									
YEAR		46,681	\$	46,681	\$	45,595		(1,086)	



September 14, 2007

To the Honorable Mayor, management and Members of the City Commission City of Parchment, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Parchment's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

#### Payroll

During our audit it was noted that the City Clerk is responsible for printing, signing, and distributing the payroll checks and that canceled checks are not returned with the bank statement. Additionally, there is no review of the payroll register by someone independent of the payroll process. Subsequent to year end, we were informed that the City Treasurer has begun signing certain check runs.

We recommend that someone independent of the payroll process review the payroll register and sign the checks. In addition, we recommend that canceled checks be returned along with the bank statements and that they be tested by someone independent of the payroll process.

#### Disbursements/ Transfers

The City Treasurer has access to check stock, access to the signature stamps for which he is a check signer, the ability to print checks, oversees the bank reconciliation process, and records transactions and adjusting journal entries. In addition, the City Treasurer makes all investment account transfers.

The bookkeeper has access to the check stock, uses the signature stamp to sign checks, and reconciles the bank accounts.

We recommend that the use of the signature stamp be terminated, and that duties relating to processing and signing checks, maintaining the accounting records, transferring of investment funds, and reconciling the bank accounts be segregated where possible. In addition, we recommend that the City Commission continue to test transactions from the bank statement on a monthly basis, and also consider including investment statements to this monthly testing.

#### Receipts

Cash receipts are received by one employee.

We recommend that all cash receipts be received, processed and recorded under dual control.

#### Utility Billings

The utility billing clerk sends the bills, receives receipts under single control, reviews and applies payments to the customer ledger, and has the ability to write off customer account balances.

We recommend that the duties of sending bills, posting payments, writing off customer balances, and receiving of receipts be segregated where possible.

#### Federal Grant

During fiscal year 2006 the City received a HUD grant for \$248,525. We were unable to determine whether the City is in compliance with the grant agreement. We recommended that the City work with HUD to insure compliance with the grant agreement and gain a full understanding of the City's responsibilities under the agreement.

We recommend that the City work with HUD to insure compliance with the grant agreement and gain a full understanding of the City's responsibilities under the agreement.

#### Kindleberger Festival

The Kindleberger Festival is a Domestic Non-profit Corporation that is organized under the auspices of the City. The accounting records are maintained in a separate accounting system and are not included in the City's general ledger.

One individual is responsible for authorizing invoices, processing and signing the checks, receiving and recording receipts, making deposits, maintaining the accounting records, and reconciling the bank account. In addition, the disbursements are not authorized by the City Commission via the warrant process.

We recommend that the City incorporate all Festival financial recording and reporting into the City's accounting records, and that the City Treasurer and City Commission review the accounting records on an ongoing basis.

We recommend that duties relating to processing and signing checks, recording receipts, making deposits, maintaining the accounting records, and reconciling the bank accounts be segregated where possible. In addition, we recommend that the City Commission authorize disbursements via the warrant process.

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This communication is intended solely for the information and use of management, and Members of the City Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very Truly Yours,

Selver Tans, PLC Seber Tans, PLC